

GLOBALIZATION STRATEGIES OF KOREAN MOTOR VEHICLE INDUSTRY: A CASE STUDY OF HYUNDAI

Myeong-kee CHUNG

The current issue in the world economy is characterized by globalization. Corporations have built up a world-wide network economy by promoting production and trade. An important cause for the globalizing trend of the world economy lies in relocation of production sites and management strategies of business. Firms need not only partnership with foreign companies in the form of direct investment and joint ventures, but they need also to develop cross-border buyer-supplier relations. These trends also provide opportunities for the sharing of risks and costs in R&D and production. Globalization is driven by strategic alliances that reflect a shift of company strategies.

Globalization is an increasingly important aspect of the automobile industry. In the past decades, the automobile industry has been one of the mains driving forces in globalization. The pattern of globalization followed by the major car makers can so far be split into three stages. The first stage is export. At this stage the goal is to create a car that fits into a worldwide car category. The second stage of globalization comes after the expansion of export. This is the setting up of transplant in major market regions. The last stage of globalization is complete localization of

transplants on one hand and the establishment of a global business network on another hand.

In the following, I would like to first of all investigate specific firm organization and interfirm market relations to which the globalization strategies of Hyundai must adjust. Then, I will explore the transition of globalization strategy from transplants in the core market to set-up the KD production site in periphery regions from 1985 through 1995. There was a clear change in Hyundai's globalization strategy at the end of the 1990s that has been primarily built by Global Top-10 strategy. The closing reflections deal with the multi-regional strategy of Hyundai.

GLOBALIZATION, FIRM ORGANIZATION AND INTERFIRM MARKET RELATIONS

Exports are the engine of the contemporary Korean motor vehicle industry's success. Hyundai exported a total of 560,169 units, up 13% from the 1995 figure of 494,479. In the 1980s, Hyundai began to explore strategies to increase access to the overseas market. The strategy of internationalization in the first stage was to develop joint ventures with advanced foreign car makers

that would allow them to develop a world market sales car. The growth in production and exports requires closely linking both the advanced product design and process technology. For this project Hyundai began technical cooperation with Mitsubishi. They obtained chassis components and other parts that were difficult to manufacture, such as gears and engines, directly from Mitsubishi, but fabricated the cylinder head and blocks, housing, and transmission case in house. In the early 1980s, Hyundai constructed a new plant for the first front-wheel drive car in Korea and created the "Excel Phenomena" in 1985 and successfully entered the market in the United States in 1986.

In the next phase, Hyundai saw the need for diversification of the overseas market. Their efforts intensified after the loss of the U.S. market engendered by the end of the 1980s and domestic market's saturation. Regional sales for the year 1996 were 133,009 units in North America, occupying 24% of all exported vehicles; 178,328 units in Europe with 32%; and the rest of the regions occupying 44% with 248,832 units. As the domestic vehicle market gradually matures, Hyundai is trying to explore more overseas markets through the expansion of car production bases in foreign countries. In particular, developing countries are becoming more important markets for Korean auto makers, taking into account the nearly saturated status of the domestic car market, cheap labor costs of foreign workers and the toughened trade barriers built by advanced countries on the imports of cars. Hyundai has focused their efforts on the developing overseas markets because they know that they can no longer depend on the domestic market for sustained growth.¹

Hyundai began to face increasing global competition both at home and abroad from the 1990s onwards. Since the late 1980s, Hyundai has adopted a comparative production system, namely lean production system, in order to improve quality and productivity. In this point of view, Hyundai started to rationalize their reorganized logistics through the use of modern information and communication technologies like "value added network". They set up rationalization of logistics in

1994 that belonged to 329 firms of their suppliers. With the development of this system Hyundai can completely control the logistics chain, so they will increase the flexibility of the logistic plan. As a result of the revitalization of JIT delivery ² the time-unit of delivery scheduling was radically reduced from months to days and then to hours. By 1993 approximately 76.4% of the total parts bought (in volumes) were delivered daily, 17.1% of it weekly, and 6.5% of it monthly.³ Hyundai has an average inventory of 0.6 days of production.

As an initial step towards a collaborative relationship, Hyundai and their suppliers can begin with joint value analysis. An import outcome of this shift in subcontracting from unilateral to bilateral relationships implies recognizing the strategic role of subcontractors in determining the quality and costs of cars.⁴ In 1985, Hyundai introduced a Japanese style subcontracting system and began a supplier association. Approximately 265 firms were participating in 1994. This organization is the most important mechanism for supplier coordination and development. Hyundai must be regarded as one of the primary innovators in the use of supplier associations, so called "Hyungdong hoe". Finally, the cost and quality can be controlled through this organization. Consequently, Hyundai has set up a hierarchical structure of committees through which information is regularly exchanged. Suppliers should treat the exercise as a process whereby they can redesign components with the necessary information provided by Hyundai⁵. On other hand, Hyundai

² Hyundai, since the early 1980s, has adopted a JIT-style delivery system in order to shorten delivery time.

³ Korea Institute for Industrial Economics & Trade (1994), *Development Tendency Toward. 21 Century of Korean Automobile Industry*, KIET, p.184.

⁴ In 1994 Hyundai maintained subcontracting relationships with about 455 firms and 52% of the value of its products were composed of parts and components bought from subcontractors.

⁵ Hyundai organizes a range of events at different levels for differing supplier staff types. At the head of this hierarchy are the presidents' meetings. These biannual events involve presidents from suppliers who come to listen to policy plans that Hyundai has formulated. At an intermediate level each of the Suppliers Group Committee meetings occurs roughly every 6 months. These meetings are convened for different types of suppliers according to the type of product they produce. It is at this level that senior company managers decide how they should make progress on subjects such as quality, new technology or delivery performance improvement. It is largely

¹ The domestic market for passenger cars entered the maturity phase in 1995, with its sales growing only 1% to 1,149,755 units (including sport utility vehicle such as jeep). Hyundai sold 558,743 cars, posting a 5.8% increase over the previous year.

should accept the idea that the purpose of this joint effort is for vendors to improve their profits while reducing costs for themselves. Hyundai began to invest in their subcontractors because many of these parts' makers are small and medium size firms that simply cannot afford to modernize the production process. Therefore, Hyundai often gives technical advice, management advice, money, and machines to subcontracting companies through the supplier's association. In 1993, Hyundai supplied 40 billion Won as working funds, 1 billion Won for dies developing, 8 billion Won for equipment purchasing, and 1 billion Won for payment assurance.

The subcontractor's participation in the design process effected the reduction of cost and lead time. The bilateral design between customer and supplier resulted in formalizing the "black box" design concept. Hyundai has common laboratory facilities in order to provide bilateral design and development of new components between Hyundai and their subcontractors. Around 50 engineers from 50 subcontractors resided in these facilities and another 50 engineer from other suppliers cooperated with Hyundai's engineers irregularly. The degree of "black box" component's development was only 29%, in sharp contrast to the Japanese automobile component's development. In addition, target cost techniques were useful in reducing costs of component's development.

Improving ability of high technologies is one of the preconditions of survival in the competition of the world market. Hyundai operates five research institutes in Korea and overseas. They accelerated set-up of the R&D facilities in order to facilitate the transfer of advanced technologies in advanced car makers' countries. It also broke ground for its new research institute in Yokohama, Japan with operations scheduled for 1997. This new research institute will function as the Japanese base for mutual exchanges of R&D with the existing institutes, development of new cars and electronics systems and analysis/assessment of advanced cars. In Los Angeles, they set up a design center and also established a technical center in Ann Arbor, Michigan in 1986 to supply the parent company with the latest technology and to develop cars that

satisfy diverse needs of local customers. Its domestic research institutes are as follows: Mabookri Central Research Center, Ulsan Passenger Car Institute #1, Namyang Passenger Car Institute #2, Chunju Commercial Vehicle Institute, and Namyang Design Center. These are moving to spend 1,350 billion won or 10% of its total turnover for R&D projects in 1997.⁶ The strategic alliance is one of the important sources of new technology imports (see Table 1).

To join the international top tier of automobile manufacturers, Hyundai is creating an overseas network of sales. There are two agencies in North America, 37 in Europe, 40 in Latin America, 44 in Middle East/Africa, and 29 in Asia/Pacific. Hyundai Motor America is responsible for sales in North America. Its sales activities in Canada are carried out by Hyundai Auto Canada, which is a branch of Hyundai Motor America. For the long-term improvement of sales in US market, Hyundai established Hyundai Motor Finance Company in 1990. They also established their own distribution company in Germany, a joint venture with a local partner, in order to promote marketing activities in Western Europe.

Parallel with extension of the network of overseas dealers from 2,968 to 3,200, they also will extend the 3,700 after-service chains worldwide. In 1996, Hyundai invested a total of about US\$ 30 million constructing one of the most modern parts logistic centers in Lummen City, Belgium. The service and supplying of car parts and components from this parts logistic center will cover all of Europe. Before the establishment of the parts logistic center, car components and parts were supplied from Ulsan upon the European distributor's request. Hyundai will be able to shorten the delivery time from 56 days to just a mere 8 days in the case of general orders. For emergency orders the delivery time is shortened from 10 days to 2 days. Hyundai is also operating parts centers in the North American region. Additionally, they have hired America's Caterpillar Logistic Service Inc. to take charge of parts and components warehouse operations, transportation of parts and components, customs clearance, and stock management. Hyundai set up worldwide maintenance training network systems in seven major regions. The network maintenance center

at the lowest of the three levels that this application of quality tools and techniques are set in motion. At this third level, engineers attend monthly (or more frequent) meetings in order to understand automation and quality control.

⁶ *The Korea Herald*, January 22, 1997.

facilities cover 7 regions and 9 countries: North America (USA and Canada), Central / South America (Chile), Western Europe (Germany), Eastern Europe (Slovenia), East Asia (China and Thailand), Middle East (UAE), and Africa (South Africa).

The hard competition in the world market provided a catalyst for change of production systems. The conventional production system has been rapidly eroded by increased labor costs and poor quality. It has caused labor disputes. Immediate solutions were found in the reduction of unit cost by increasing volume, automation, and by elimination of waste. The efficient designing and manufacturing of vehicles of high quality and market-segment are also strategic. Under the antagonistic relations between management and labor, Hyundai built a new assembly plant on a Greenfield site located in Asan. It's Asan plant with production capacity of 300,000 units of medium to

large-size passenger car is built in 1996. This policy of establishing new sites aimed to weaken the labor union. On the other hand, Hyundai will have its production specialized for different classes of cars in each of the Ulsan and Asan plants.

With global linkages growing and globalization continuing to make progress, national and international markets are beginning to compete with one other. Nowadays, no car maker is able to dominate the world. In fact, competitive pressure is forcing all the automakers in the world to adopt the best production processes and product innovation. Consequently, Hyundai is trying to preserve as many essential features of their home-grown model as possible to retain their competitiveness with globalization strategy both at home and overseas.

Components	Partner & Country
Window Reveal Moulding	G.M., USA
Gasoline Engine & Emission Gas Control device	Mitsubishi Motors Corp., Japan
TJ Type	GKN Transmission Ltd., England
CV Joint	NTN Tokyo Bearing Co., Japan
DOHC V6 3000cc Gasoline Engine	A.V.L. Co., Austria
G.F. Valve Unit	Ube Industries Ltd., Japan
Engine, Axle Sash, Body for Small Size Car	Mitsubishi Motors Corp., Japan
Torque Converter ass'y Auto T/M	Daikin Manufacturing Co., Japan
Gasoline V6 Engine & Emission Control System	Mitsubishi Motors Corp., Japan
Engine Technology	Mitsubishi Motors Corp., Japan
Auto Transmission	F.F.D. USA
Transmission	F.F.D. USA
Batteries for Electric Cars	Energy Conversion Devices Inc., USA
Sure Bond Type Seat	Lear Seating Co., USA
Road-load Acquisition System	SFT, Austria
CNC Girding M/C	Seiko Seki Co.,Ltd., Japan
X-3 Application & OBD-II System	Robert Bosch GmbH, Germany
Emission Control Technology	Ricardo Consulting Eng.Ltd., England
Large Diesel Engine Technology	Ricardo Consulting Eng.Ltd., England

Source: Korean Auto Industries Co-operation Association, *Yearbook of Automobile Industry*, 1995 Seoul.

AFTER FAILURE OF THE FIRST TRANSPLANT IN BROMONT

After it reached economies of scale, the growth strategy of Hyundai has been based upon exports to North America. They first entered the Canadian market in 1984, and the American market in 1986. Until 1988, Hyundai benefited from an well-educated, disciplined work force that co-operated closely with management and accepted low wages and/or bad working conditions. During this expansion phase of exports, Hyundai made a decision to establish in Canada an automobile manufacturing plant with 100,000 annual capacity. The factory's worth was over \$300 million, and production began in 1988. The main motivation of this transplant was the access to attractive North America's market. "Voluntary Restraint Agreement" (VRA) between Japan and the USA led to the construction of an assembly factory for passenger cars in Canada. This project is the first investment by a car maker from a NIEs in an advanced country. Its Canadian and USA auto sales failed to pick up, leading Hyundai to scale back its production goal at its Bromont plant. As a result, the Bromont plant failed in 1991 and is now closed.

A lot of reasons given to explain this decision are still a hot issue among management. The major reason of the closing of the first transplant of Hyundai was the rather poor performance of the plant in terms of quality and productivity. Total production of this plant in 1990 and 1991 was 27,409 and 28,201 respectively. This was far below capacity and expectation. At that time, this plant had a workforce of 1,200. This plant did not take part in the process of the establishment of new production system, with increased flexibility and participation in the concept of team work. The production system of this plant also is characterized by the Fordist manufacturing system. This means that the production line only has limited conversion flexibility. There were no attempts at using new concepts to achieve increased efficiency and quality in production. After a promising start in the mid-eighties, Hyundai sales have been sluggish in the U.S. due

to problems of after-sales service, poor quality and design. Since 1987, labor disputes in the main plant in Korea have been on the rise year by year. This has helped to bring about lockouts and the loss of cost-reducing opportunities. Consequently, they did not supply assembly parts to the Bromont plant. That created an obstacle to increased productivity and capacity utilization. No Korean component suppliers invested in the area of Bromont because they did not want to take a risk due to the limited demand in that transplant. Another reason was the intention to use the low cost production basis in new emerging markets such as South Asia. At the end of 1996, machinery and equipment of the Bromont plant were shipped to India, where Hyundai set up India's first fully foreign-owned car factory.

This transplant strategy is not yet complete. Hyundai opted for an indirect approach after it withdrew from manufacturing in North America. Hyundai could simply not afford to build up a viable presence in the heart of the developed country. The new aspect of globalization strategy was the build-up of knock-down export based on the emerging markets in the periphery. Under this strategy, strategic functions, such as product design and R&D, remain centralized in the company's headquarters. The main motivation of this strategy is the access to emerging markets that may include the need to overcome tariff and/or non-tariff barriers. The first stage of globalization between 1987 and 1995 saw Hyundai move from a world-wide export strategy to a multi-domestic structure based on manufacturing sites in the different regions.

Since the middle of the 1990s, Hyundai required a new globalization strategy due to increasing competitive pressure in domestic and overseas market. The gradual loss of the market in North America⁷ had also brought the effect of strengthening internationalization. The strategic choice of internationalization has been to concentrate efforts on diversification of the international market. That is, diversification of the

⁷ US remained the largest overseas markets for Korea in 1995 though its share of Korean auto exports declined. Korean auto exports to North America decreased 14 percent from 234,904 vehicles in 1994 to 203,785 in 1995. Shipments to North America accounted for 20.7 percent of the total, down from 31.8 percent.

export markets to developing countries in Asia and South America. In this context, Korean car manufacturers are seeing the need to expand into the European market. To promote exports, Korean auto makers are improving quality and strengthening marketing in the US and West European countries in particular. The 1990s will see Koreans increasingly set their high-quality inexpensive cars against the more expensive Western Europe competition. Now, European countries are the second largest markets for Korean car assemblers.

The other strategic choice of globalization is expansion of knock-down kits and/or joint venture's investment in the less developed countries of the automobile industry to avoid intensifying trade friction. Two parallel patterns of Hyundai activities are likely to continue. On the one hand, they will continue to be heterogeneous forms of enterprise, namely project-based collaborations, licensed manufacturing or joint ventures. On the other hand, Hyundai is establishing new transplants through the acquisition of local existing car assemblers and/or through direct investment. In the second half of the 1990s, the international structure of production appeared to be based on an axis between two regional poles:

- One new pole of integrated activities in Southeast Asia, extended to China, Europe and Africa.
- One new pole in Latin America based in Venezuela.

After initial export successes in North America, the Bromont plant was incurring tremendous losses with few prospects for internationalization. Therefore, Hyundai now emphasizes joint ventures and/or license manufacturing in periphery regions.

The internationalization of automobile manufacturing by Hyundai started mostly in Southeast Asia operations (see Table 2); Egypt (20,000 unit per year), Botswana (20,000 unit per year), Zimbabwe (10,000 unit per year), Thailand (10,000 unit per year), Philippines (12,000 unit per year), Malaysia (12,000 unit per year), Indonesia (10,000 unit per year), Venezuela (10,000 unit per year), Vietnam (20,000 unit per year), and China (60,000 units per year).

Hyundai's CKD plant in Botswana is the only assembly plant of foreign auto makers in Botswana. It has an annual capacity of 40,000

units. In 1996, Hyundai has been producing about 15,000 units on an SKD basis with South Africa absorbing 95% of the output. The company has scheduled the Accent, New Elantra/Lantra and Sonata for assembly at the plant. This model will roll out in 1998. Manufacturas Automotriz Venezuela S.A., Hyundai's local partner, is the sole investor in the plant. This brings Hyundai one step closer to the Latin America markets. The CKD plant assembles the Excel at the annual rate of 10,000 units. HMC provides core parts like engines and transmissions to this assembler, while tires, batteries and door trim (accounting for 30% of content) are supplied locally. The Turkish plant is scheduled to start producing 50,000 units of the Accent and the H-100 (Minibus) in 1997. By the year 2000, the plant's production capacity is expected to expand to 120,000 units. Hyundai will put the new Lantra into production at a future date in order to diversify its model line-up in the region. In the early stage of production, Hyundai will concentrate on the Turkish domestic market, but it will eventually start exporting its vehicles to neighboring countries. Hyundai will provide the joint venture company with key parts such as moulds, jigs, machinery and other production facilities along with core parts such as engines and transmission. Turkish suppliers will provide tires, batteries and other parts in an effort to obtain a 30% local content rate at the very outset. By 1999, a press plant will be added to increase the domestic content rate to 50% and by 2002 the rate will increase to 60%. Hyundai and PT Citramobil National, which is controlled by President Suharto's second son Bambang Trihatmojo, will jointly assemble 10,000 units of Hyundai's subcompact, Lantra, annually. Also, it will produce commercial vehicles jointly with Renault of France in Malaysia from 1997.

Connected with the change in strategy is difference in the relationship between domestic and foreign sites. Up until then there was a hierarchy in which the domestic core plants were outfitted with the respective company's latest technology and they delivered their products in core countries of the North America and Europe⁸, whereby the peripheral plants applied

⁸ This strategy does apply to build the Asan Plant, which operated in 1996.

"used technology" to supply the peripheral countries.

In this Phase, the internationalization strategy of Hyundai is characterized by niche-market strategy. This means that the overseas production site is

limited to the periphery area, which does not have the hard competition of advanced auto makers. Otherwise, KD export by Korean manufacturer as

Table 2: *Overseas Manufacturing Sites of Hyundai*

Country	Local Partner	Model	Capacity	Begin of Production
China	Wuhan Wangdong	Minibus	60,000	1996
Taiwan	N.A.	Accent, Avante	20,000	1997
Egypt	Ghabbour	Excell	20,000	Jan. 1995
Botswana	Sabot	Excell, Lantra	20,000	1996
Pakistan	N.A.	Accent	10,000	July 1988
Vietnam	990 Co.,	Excell, Minibus	20,000	July 1996
Turkey	Hyundai-Assan	Accent, Minib	50,000	July 1997
India	100%	Accent	100,000	1998
Zimbabwe	N.A.	Excell	10,000	1993
Thailand	N.A	Lantra	10,000	1995
Philippines	N. A	Excell	12,000	1995
Indonesia	Bimantara	Mini truck	10,000	1998
Venezuela	Automotriz Venezuela		10,000	1997
Malaysia	Renault/Malaysian government		10,000	1997

an internationalization strategy has been lifted from the import quota system of auto importing countries. They have been able to increase Hyundai's overall market penetration despite increased import barrier or raise dumping charges against foreign-made cars.

THE TRANSITION TO MULTI-REGIONAL STRATEGY IN THE LATE 1990S

The implementation of multi-regional strategy involved the decision to integrate Southeast Asia operations in terms of products and manufacturing. Ultimately, Hyundai created a single vehicle, launched in India in 1998 and the following year in Indonesia and Thailand. An organizational structure is emerging which is based on three world regions: Asia, North & South America and Europe. Hyundai has made significant regional advances as far as it Asia-Pacific operations are concerned, as it has attempted to co-ordinate the activities of its various subsidiaries spread out among the ASEAN

countries, creating a regional division of labor, and linking the factories in India and Indonesia into a network of global sourcing of components and parts. Hyundai continues to expand in markets it has already entered and influences through its exports, with the internationalization of its sales, based on existence of sales and after-service network as a basis upon which to make investments in production.

In Southeast Asia, the company was to start production and sale of a specific vehicle destined for these markets (Asian Car), on the basis of a platform shared with Korean products (Accent Model). This led Hyundai to utilize its components and platforms to the maximum. On the other hand, this platform strategy permits the accelerated pace of product replacement in the home market. Since the late 1996, Hyundai has begun the construction of its largest manufacturing plant excepting Korea in Chennai, India. Hyundai will be investing approximately US\$ 1.1 billion in the Hyundai Motor India Chennai Plant by the year 2001. The India project is divided into a two-phase construction plan. The first stage of this

construction project will be completed by 1998 with an annual production capacity of 120,000 units. In this phase, Hyundai will manufacture 1300cc and 1500cc Accents. And by 2001, the second phase will be completed, when Hyundai plans to manufacture additional models in India. The Hyundai's Chennai Plant will consist of shops for engine, transmission, press, body, paint, assembly, and plastic injection moulding. Also in the plan is an R&D center, Proving Ground, and a vehicle performance test center will be built in the plant. These facilities will enable the Hyundai's Chennai plant to become a self-sufficient manufacturing and production site for developing cars that meet the needs of its local market.

Hyundai is in tune with the global trend of offshore expansion and is setting a precedent in the world's auto industry. Particularly, 16 Korean parts and components suppliers to Hyundai will be setting up their facilities jointly with their local Indian partner near the Chennai Plant. Suppliers also faced pressure to contain or reduce costs in order to reduce the cost of assemblers. They belong to two typologies firm within the Hyundai Group or independent Korean suppliers. In the parallel direction of internalization of production by assembler, the supplier industry also move forward to the relocation of their production sites with low wage costs like China and Southeast Asian countries.⁹ The investment strategy of suppliers is initially of a follow-the-client type, actually encouraged by Hyundai, aiming at diversification of world clients. Obviously, this parallel overseas penetration of suppliers with assembler has improved the economies of scale. This strategy will help to establish the global sourcing that is becoming a leitmotiv of Hyundai. Hyundai Motor India plans to export cars and key parts, such as engines and transmission, to the KD plants and neighboring Southeast Asian countries.

This new trajectory may lead Hyundai toward a new configuration on the basis of pragmatic globalization. Hyundai is also planning expansion into the Chinese market in term of its

Asian Car project. For the production of passenger cars, China permitted three large and three small production bases: SAW-Citroen and FAW-Volkswagen, and Shanghai Volkswagen Auto Company Ltd., and the latter refers to Sino-American Beijing Jeep Company Ltd., Tianjin Dafa Auto Company Ltd., and Guangzhou Peugeot Company Ltd. Under this Chinese policy, Hyundai has little chance to set up a production base in China. However, the company has a joint venture production site for minibus in Wuhan. To get a license for production of passenger cars, Hyundai will take over the Peugeot owned stock of Guangzhou Peugeot Company Ltd, of which 22% is owned by Peugeot. After merger between Peugeot and Citroen, the French producer cannot hold two differential joint ventures in China.¹⁰ Guangzhou Peugeot operates in the red owing to the poor quality, high production cost and hard competition in the Chinese market. The negotiation between Hyundai and P.S.A is ongoing. Hyundai regards China as a second domestic market. Therefore, the penetration of the Chinese market, combined with ongoing hard competition in core markets, has strongly influenced Hyundai's multi-regional strategy focused on Southeast Asia.

In this respect, Hyundai will attempt the launching of an "Asian Car" by 1999, especially conceived for intermediate emerging countries in Southeast Asia. During this first phase, production is located in India, while in the future it is planned for China, the Philippines, Thailand, Indonesia and Malaysia. This "Asia Car" strategy, especially oriented to emerging markets in which the demand has increased 14% a year, may expect a major new stage in the Hyundai globalization process in the late 1990s. Hyundai will produce a total of 500,000 units from its auto plants in Southeast Asia by 2005, while the planned car production in its overseas plant will be 225,000 units in 1997 through a knockdown formula.¹¹ For the automobile markets in Europe and North America, however, Hyundai will maintain the present direct-export system for the time being. Under this globalization strategy, Hyundai will attain the 10% market share of this emerging market. In the first phase of the Asian Car project, local contents will achieve 50% and

⁹ By 1995, approximately 74 Korean parts suppliers had constructed plants in China and Southeast Asian countries. More recently, Korean parts suppliers have established facilities on their own initiative in order to reduce the production costs.

¹⁰ *The Hankyoreh News Paper*, December 18, 1996.

¹¹ *The Korea Herald*, January 22, 1997.

is generally growing. By 2005 it will attain 80%. The company plans to develop the global network system for Southeast Asia. For this purpose, they will also set up Asia Regional Head-quarters in a bid to attain further improvements in global linkages.

CONCLUSION

Nowadays, Hyundai's Trajectory is characterized by transition from a world-wide export strategy to multi-domestic strategy based on manufacturing sites in the differential regions, because they can't continue to depend on the domestic market for sustained growth and loss to the vast potential market. In this transition process, Hyundai has adopted three ways that become clear as follows:

Continuously, Hyundai has extended production sites with knock-down manufacturing base in periphery areas. Through niche-market strategy, the company has been able to increase its periphery market penetrations despite increased import barriers or raised dumping charges.

For the core markets, they will hold the direct export strategy. To increased quality, they are to complete a new modern factory with the respective company's latest technology and new work organization.

In transition the multi-domestic company, Hyundai will develop the "Asian Car" based on the new transplant in India.

The success of Hyundai's trajectory and enhanced position in the world car market depends more on the competitive foundation of the

company. Nevertheless, Hyundai faces critical challenges:

The logical target for transplants by the KD knit is throughout Asia, but that means hard competition between Korean automobile, Southeast

manufactures in the periphery. Otherwise Asia is already dominated by Japanese auto makers. It may be that Hyundai access for these regions may need important strategic challengers. In response to the growth of the Asian market, Hyundai should be equipped with modern technology and operate under modern management concepts in overseas plants in Asia.

In spite of the pressures' globalization creates, the strategy of global sourcing and localization is in its infancy. Obviously, the major task is to stimulate the set up of the international supplier's network. It may be that Hyundai may need to be secured through Korean sourcing from suppliers in Southeast Asia.

To survive the fierce sales competitions in core markets, Hyundai should exert its best efforts to improve technology and quality. Quality and high technology are preconditions for survival. They also must improve their own image, which is a reputation for poor quality cars in the main export market. Hyundai can succeed with appropriate human resource development in order to improve quality.

It is still unclear whether or not Hyundai is effective in responding to its challenges. Hyundai is at a critically important cross roads in the globalization process. The globalization of Hyundai depends on how efficiently the global sourcing network and humane resource management will be set up. The future of Hyundai's trajectory is hard to predict.

Myeong-kee CHUNG
Han Nam University,
COREE DU SUD

REFERENCE

Belis-Bergouignan Marie-Claude, Bordenave Gérard, Lung Yannick (1996), "Global Strategies in the Automobile Industry", *Actes du GERPISA*, No. 18, pp. 99 - 115.

Chung Myeong-Kee (1996) "Internationalization Strategies of Korean Motor Vehicle Industry", *Actes du GERPISA*, No. 18, pp.117~122

_____ (1995), "In Search of a World Position: The Trajectory of Hyundai", Paper presented at the *GERPISA Third International Colloquium "The New Industrial Model"* Paris 15-17 June 1995.

Flynn Michael (1994), *The globalization of the Automotive Industry: Competitive Implications and Strategic Challenges*, Mimeo, KIET, Seoul.

Freyssenet Michel, Lung Yannick (1996), "Between Globalization and Regionalization: What Future for the Automobile Industry", *Actes du GERPISA*, No. 18, pp.39-68.

Korean Auto Industries Co-operation Association, *Yearbook of Automobile Industry*, 1995 Seoul.

Korea Institute for Industrial Economics & Trade (1994), *Development Tendency Toward 21 Century of Korean Automobile Industry*, KIET, Seoul (in Korean).

Hyundai Motor Co., *The Current News of Hyundai*, various issues (1995 - 1997).

The Korea Herald, January 22, 1997

The Hankyoreh News Paper, December 18, 1996.